CALIFORNIA MEDICAL ASSISTANCE COMMISSION
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CALIFORNIA MEDICAL ASSISTANCE COMMISSION

State Capitol, Room 113
Sacramento, CA

Minutes of Meeting
January 22, 2009

COMMISSIONERS PRESENT
Michele Burton, M.P.H.
Wilma Chan
Daniel Eaton
Marvin Kropke
Vicki Marti
Nancy McFadden

COMMISSIONERS ABSENT

CMAC STAFF PRESENT
J. Keith Berger, Executive Director
Tacia Carroll
Paul Cerles
Nathan Davis
Denise DeTrano
Holland Golec
Mark Kloberdanz
Katie Knudson
Jenny Morgan
Becky Swol
Mike Tagupa
Mervin Tamai
Karen Thalhammer

EX-OFFICIO MEMBERS PRESENT
Lisa Kawano, Department of Health Care Services
Randy Ward, Department of Finance

EX-OFFICIO MEMBERS ABSENT

I. Call to Order

The January 22, 2009 open session meeting of the California Medical Assistance Commission (CMAC) was called to order by Commissioner McFadden. A quorum was present.

II. Approval of Minutes

The January 8, 2009 meeting minutes were approved as prepared by CMAC staff.

III. Executive Director's Report

J. Keith Berger, Executive Director, welcomed Lisa Kawano, Chief of the Inpatient Contract and Monitoring Section in the Safety Net Financing Division of the Department of Health Care Services (DHCS). Mr. Berger noted that she would be representing DHCS in today's meeting.

Mr. Berger informed the Commissioners that the Governor's Budget was officially released not long after the previous CMAC meeting. He said that CMAC's ex-officio representatives from the Departments of Finance (DOF) and DHCS have agreed to provide CMAC with a brief overview and update on the Medi-Cal portion of the Governor's Budget and on-going budget discussions. Mr. Berger thanked them both for their updates.

Mr. Ward, DOF, informed CMAC that after much media attention and even with the proposed budget reductions, the proposed Medi-Cal program budget was increased by $1.1 billion, which is largely due to caseload and rate adjustments. Mr. Ward noted that Ms. Kawano would give more detail regarding the Medi-Cal budget.

Ms. Kawano indicated that she had distributed the 2009-10 Governor's Budget Highlights for DHCS (attached), but she elaborated on the section related to hospital financing –stabilization funding (Policy Change 94 on page 10). Ms. Kawano explained that the stabilization funding appropriation for FY 2008-09 will include funding that was provided for FY 2005-06, FY 2006-07 and FY 2007-08, totaling $83.9 million. She noted that even though there appears to be a decrease in funding for FY 2009-10, it is because the previous allocation for FY 2008-09 included funding from multiple years.

Ms. Kawano said she would be happy to address any specific questions at the next CMAC meeting.

Mr. Berger indicated that copies of the overview are available at the meeting and will be attached to the meeting minutes.

CMAC's current meeting schedule goes through June 30 of this year. Mr. Berger noted that the Commissioners have been provided with a draft schedule of proposed meeting dates for FY 2009-2010. He asked that the Commissioners please review the proposed dates and let CMAC staff know if there are any questions, concerns or conflicts with those dates. Based on the Commissioners' feedback, a final schedule will be prepared for their approval at the February 5, 2009 meeting.

Mr. Berger indicated that in closed session, there were five contracts and amendments before the Commissioners for review and action as well as continuing discussions and updates regarding current negotiations and negotiation strategies.

To end his report, Mr. Berger recognized Nanci Beams from DHCS, as this was her last week with the Hospital Contracts Unit. She will be beginning a new position at the Department of Public Health. For almost seven years, Ms. Beams has been responsible for

coordinating the Departmental review of CMAC's Selective Provider Contracting Program (SPCP) hospital contracts prior to CMAC action and the implementation of the approved and executed hospital contracts.

Mr. Berger noted that Ms. Beams has been professional, responsive, knowledgeable and a joy to work with. On behalf of CMAC, Mr. Berger thanked Ms. Beams for all of her hard work over the years and wished her well at her new position.

IV. Department of Health Care Services (DHCS) Report

Lisa Kawano, DHCS, had nothing new to report.

V. New Business/Public Comments/Adjournment

There being no new business and no comments from the public, Commissioner McFadden recessed the open session. Commissioner McFadden opened the closed session and, after closed session items were addressed, adjourned the closed session, at which time the Commission reconvened in open session. Commissioner McFadden announced that the Commission had taken action on hospital and managed care contracts and amendments in closed session. The open session was then adjourned.

2009-10 Governor's Budget

Highlights

Department of Health Care Services

Arnold Schwarzenegger
Governor
State of California

S. Kimberly Belshé
Secretary
California Health and Human Services Agency

David Maxwell-Jolly
Director
Department of Health Care Services

January 9, 2009

California Department of Health Care Services Program Overview

The mission of the California Department of Health Care Services (DHCS) is to protect and improve the health of all Californians through operating and financing programs delivering personal health care services to eligible individuals.

DHCS' programs provide services to ensure low-income Californians have access to health care services and that those services are delivered in a cost effective manner. The Medi-Cal program is a health care program for low-income and low-resource individuals and families who meet defined eligibility requirements. Medi-Cal is responsible for coordinating and directing the delivery of health care services to approximately 6.7 million qualified persons and families, including low-income families, seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases. Children's Medical Services is responsible for coordinating and directing the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases, including the Child Health and Disability Prevention Program, Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program. Primary and Rural Health is responsible for coordinating and directing the delivery of health care to Californians in rural areas and to underserved populations, and it includes the Expanded Access to Primary Care Program, the Indian Health Program, the Rural Health Services Development Program, and the Seasonal Agricultural and Migratory Workers Program.

General Budget Overview

The budget for DHCS supports activities and services that reinforce the State's commitment to protecting and improving the health of all Californians. For Fiscal Year (FY) 2009-10, the Governor's Budget provides a total of $40.6 billion for the support of DHCS' programs and services. Of the amount proposed, $424.7 million is for state operations and $40.2 billion is for local assistance. The proposed budget affirms the Department's commitment to address the health care needs of Californians. It does this through responsible proposals that continue to address the needs of the most vulnerable populations.

Total DHCS Budget

Governor's Budget Fund Source	2008-09 Budget Act	2008-09 Revised Budget	2009-10 Proposed Budget
General Fund (GF)	$ 14,753,530	$ 14,731,178	$ 15,175,512
Federal Funds (FF)	$ 22,276,335	$ 22,542,768	$ 23,058,976
Special Fund & Reimbursements	$ 2,355,558	$ 2,620,481	$ 2,439,099
Total Funds	**$ 39,385,423**	**$ 39,894,427**	**$ 40,673,587**

*Dollars in thousands

State Operations

State Operations by Fund Source *			
Governor's Budget Fund Source	2008-09 Budget Act	2008-09 Revised Budget	2009-10 Proposed Budget
General Fund	$ 136,847	$ 138,008	$ 139,632
Federal Funds	$ 255,977	$ 258,430	$ 259,587
Special Funds & Reimbursements	$ 24,758	$ 24,760	$ 25,507
Total State Operations	**$ 417,582**	**$ 421,198**	**$ 424,726**
*Dollars in thousands			

Local Assistance

Local Assistance by Fund Source *			
Governor's Budget Fund Source	2008-09 Budget Act	2008-09 Revised Budget	2009-10 Proposed Budget
General Fund	$ 14,616,683	$ 14,593,170	$ 15,035,879
Federal Fund	$ 22,020,358	$ 22,284,338	$ 22,799,390
Special Funds & Reimbursements	$ 2,330,800	$ 2,595,721	$ 2,413,592
Total Local Assistance	**$ 38,967,841**	**$ 39,473,229**	**$ 40,248,861**

*Dollars in thousands

BUDGET ADJUSTMENTS

Budget Change Proposals

Privacy Office Positions

3.0 Positions $289,000 Total Funds
$116,000 GF
$173,000 FF

The Governor's Budget extends three (3) limited-term positions for two years to June 30, 2011, to maintain and improve the DHCS' compliance with the federal Health Insurance Portability and Accountability Act Privacy Rule, the state Information Practices Act and other federal laws and regulations governing the privacy and confidentiality of health information. Extension of the limited term positions will enable the Privacy Office to maintain and manage an effective privacy program for the DHCS.

Information Technology Position Authorizations
10.0 Positions $0 Total Funds
$0 GF
$0 FF

The Governor's Budget converts ten (10) contract positions in FY 2009-10 to permanent state staff positions to provide the required information technology (IT) expertise to support the mission and goals of the State Chief Information Officer and DHCS' Strategic Plan. In addition to these positions, the proposal also converts nine (9) positions in 2010-11 and a remaining nine (9) positions in 2011-12. In the past, the Department hired contractors to fill the gaps in staffing due to workload increases in IT expertise for mission critical programs. Since the conversion to state staff will occur over a three-year period, it will allow the DHCS sufficient time for knowledge transfer and recruitment and training of new staff, while minimizing the impact on critical IT services. Existing contract funds will be redirected to cover the cost for these positions and ensure that no additional General Fund is needed.

Bioterrorism Auditors
3.0 Positions $353,000 Total Funds
$353,000 Other Funds

The Governor's Budget extends three (3) current two-year limited-term positions for an additional two years to June 30, 2011. These positions are needed for ongoing audits of local health departments (LHD) and are funded through two federal public health emergency preparedness grants. These two grants are funded through the Centers for Disease Control and Prevention to support state and local public health preparedness and the Health Preparedness Program to improve the capacity of LHDs to respond to bioterrorism, outbreaks of infectious diseases and other public health threats and emergencies. These audits are conducted by the DHCS under an Interagency Agreement with the California Department of Public Health (CDPH) whereby CDPH is required to undertake financial audits of LHDs' use of federal grant funds on a three year cycle, effective January 1, 2007.

Specialty Mental Health Waiver Unit Expansion
3.0 Positions $331 Total Funds
$166 GF
$165 FF

The Governor's Budget converts one (1) limited-term manager to a permanent position and establishes two (2) new permanent specialist positions. These positions are needed to increase compliance monitoring and oversight of the Medi-Cal Specialty Mental Health Services Waiver, housed in the Department of Mental Health (DMH), and reduce the significant federal and state financial risk that currently exists in this program.

Privacy and Security of Medi-Cal Information
16.0 Positions $1,012 Total Funds
$307 GF
$705 FF

The Governor's Budget extends sixteen (16) existing limited-term positions an additional two and a half years to June 30, 2012, to perform the ongoing workload of protecting and securing Medi-Cal eligibility information. The DHCS must ensure compliance with safeguards that are required by the federal Social Security Administration (SSA).

Refugee Medical Assistance (RMA)
1.0 Position $106 Total Funds
$106 Other Funds

The Governor's Budget establishes one (1) full-time permanent position for oversight and administration of the eligibility requirements for the Refugee Medical Assistance/Entrant Medical Assistance (RMA/EMA) Program. Funding for this position will be provided through an Interagency Agreement with the CDPH who oversees and disburses the federal funds for the RMA Program. This position is needed to ensure that implementation and monitoring of the RMA/EMA program is not unnecessarily delayed.

California Mental Health Care Management Program (CALMEND)
1.0 Position $362 Total Funds
$181 FF
$181 Other Funds

The Governor's Budget establishes an increase in staffing and funding for the California Mental Health Care Management Program (CalMEND). Specifically, the DHCS will receive additional Mental Health Service Act funds allocated to the CalMEND program to fund one (1) full-time limited term position for two years to provide program support services to CalMEND staff and for general support of CalMEND program activities.

Pediatric Palliative Care Waiver
1.0 Position $69 Total Funds
$41 GF
$28 FF

The Governor's Budget extends one (1) existing limited-term position an additional two years to December 31, 2011, to continue the implementation, administration, monitoring and evaluation of the Pediatric Palliative Care Waiver mandated by the Nick Snow Hospice and Palliative Care Act (AB 1745, Chapter 330, Statutes of 2006).

Program Integrity and Enrollment Verification
9.0 Positions $1,168 Total Funds
$584 GF
$584 FF

The Governor's Budget establishes nine (9) positions and funding for three program areas (Third Party Verification of Assets, Public Assistance Reporting Information System and In-Home Supportive Services (IHSS) Investigations) to improve program integrity and enrollment verification in the Medi-Cal program. Additionally, the implementation of PARIS and Third Party Verification of Assets assists DHCS in meeting two new federal requirements. Specifically, 1) the asset verification section of this proposal will allow DHCS to conduct verification of assets for Medi-Cal applicants and beneficiaries whose eligibility is based on being Aged, Blind or Disabled, 2) implementing PARIS for the federal match will improve the Department's capability to verify Medi-Cal beneficiaries California residency and identify unreported federal health and income benefits, and 3) DHCS will conduct investigations of IHSS providers and beneficiaries who are suspected of fraud and abuse.

ESTIMATE ADJUSTMENTS

Medi-Cal Local Assistance

Although there are adjustments within individual 2008-09 Medi-Cal assumptions, those adjustments as a whole result in no change in the General Fund (GF) as compared to the 2008-09 budget appropriation. The Medi-Cal GF costs in FY 2009-10 are expected to increase by $470.7 million from FY 2008-09 estimated expenditures of $14.41 billion to $14.88 billion. The increase in expenditures is attributable to changes discussed below.

Adjustments for 2008-09 Compared to the 2008-09 Budget Appropriation and Changes from 2008-09 to 2009-10

Base PC 50 Two Plan Model; Base PC 51 County Organized Health Systems and Base PC 52 GMC: 2008-09 managed care base costs for the Two Plan Model, County Organized Health Systems (COHS) and Geographic Managed Care (GMC) are estimated to be $33.7 million GF higher than shown in the managed care base costs for the 2008-09 Appropriation. However, the November Estimate base costs, in addition to reflecting increases in estimated caseload, use the final 2008-09 capitation rates, which include the impact of the provider payment reductions, the subsequent court injunction, the non-contract hospital post-stabilization savings, and the capitation costs for the San Luis Obispo COHS expansion. (Final rates for GMC health plans are subject to California Medical Assistance Commission (CMAC) negotiation.) In the Appropriation, the estimated impacts of these issues were included in separate policy changes. When overall expenditures for Two Plan, COHS and GMC in the November 2008 Estimate are compared to the overall expenditures in the Appropriation, expenditures are $111.9 million GF higher in 2008-09. Of that total, approximately $91 million GF is due to higher caseload estimates. In 2009-10, costs are expected to increase by an additional $70.6 million GF due to continued growth in the program.

Base PC 111 Medicare Payments - Part A & B Premiums: The Medi-Cal Program expects to pay Medicare Part A inpatient premiums for 159,335 average monthly Medi-Cal beneficiaries in 2008-09 and Part B outpatient premiums for 1,118,934. The costs for the premiums are expected to be $1.2 million GF higher than in the Appropriation due to a January 2009 Part A premium that is $7 higher than had been estimated. Costs are expected to increase by $69.2 million GF in 2009-10 due to an increase in premiums in January 2010 of $21 for Part A and $3 for Part B, as well as growth in the number of persons covered.

Base PC 114 Medicare Payments – Part D Phased-Down Contribution: The Medicare Part D drug benefit included in the Medicare Modernization Act (MMA) was implemented in January 2006. Medi-Cal discontinued coverage of all drugs for Medi-Cal/Medicare dual eligibles that are covered under Part D. The MMA requires states to contribute part of the savings obtained from no longer covering most drugs for dual eligibles. The initial payment for this "clawback" is 90% of the savings as identified under federal formula, which is reduced each year until it reaches 75% on an ongoing basis. For Calendar Year 2008, the percentage is 86 2/3. For Calendar Year 2009, the percentage is 85. Clawback payments are expected to be $1.207 billion GF in 2008-09, $3.0 million higher than in the Appropriation. In 2009-10 the clawback is expected to increase by $105.3 million GF due to the estimated increase in eligibles, as well as a 9.26% increase in the per member per month cost in Calendar Year 2009, and an estimated 6.10% increase in Calendar Year 2010.

PC 1 Family Planning Initiative: The Family Planning, Access, Care and Treatment (Family PACT) waiver provides contraceptive services to persons in need of such services who have incomes under 200% of the Federal Poverty Level (FPL). The waiver expired on November 30, 2004, and is operating under short-term extensions from the Centers for Medicare and Medicaid Services (CMS) while the renewal is being negotiated. For federal claiming purposes, 13.95% of the costs had been assumed to be for undocumented persons and were budgeted at 100% GF. However, in recent extensions, CMS had increased the undocumented persons percentage. The November Estimate includes funding at 17.79% for July through September 2008, and 24% beginning October 1, 2008. For this reason, as well as continuing growth in the program, 2008-09 costs are expected to be $38.6 million GF higher than the Appropriation. 2009-10 costs are expected to increase by an additional $8.8 million GF. The program continues to operate on two-week extensions and it is possible that the GF impact could increase considerably if the federal government continues forward with its proposed changes to the waiver renewal. The Department will be working with the Obama administration to receive a more favorable renewal in order to minimize any future GF impact.

PC 14 Reduce CEC and Implement MSR: Continuous Eligibility for Children (CEC) was implemented January 1, 2001, and was authorized by AB 2900, (Chapter 945, Statutes of 2000). Children eligible for no cost Medi-Cal received continuous coverage until their annual re-determination. The November Estimate assumed that beginning in December 2008, CEC was discontinued and mid-year status reporting is required. The 2008-09 savings estimate is $4.5 million GF less than the Appropriation due to implementation timing. In 2009-10 savings are expected to increase by $82.6 million GF over 2008-09.

PC 15 Provider Payment Reduction Litigation; PC NA: PC 73 Managed Care Post Stabilization Payment Savings; PC 82 Non-SPCP Hospital Reimbursement Change; PC 83 Reduction to Non-Contract Hospitals; PC 84 Reduction to LTC Provider Payments; PC 85 Reduction to Managed Care; and PC 86 Reduction to Provider Payments: ABX3 5 (Chapter 3, Statutes of 2008) reduced payments to fee-for-service (FFS) Medi-Cal providers by 10%, with specified exemptions. Managed care capitation payments are to be reduced by the actuarial equivalent of the 10% provider payment reductions. Effective March 1, 2009, as required by the Health Trailer Bill of 2008, the LTC and pharmacy payments will be reduced by 5% and all other providers will be reduced by 1%. The Health Trailer Bill specified that Non-Selective Provider Contracting Program (Non-SPCP) hospitals be paid the average regional rate established by CMAC minus 5%, or the hospital's interim rate minus 10%, whichever is lower. Small and rural hospitals were exempted from the 10% reduction effective November 2008.

On August 18, 2008, in the case of *Independent Living Center v.* Shewry, the U.S. District Court issued a preliminary injunction on the payment reductions and ordered the Department to restore the payment reduction to the following provider types: prescription drugs, adult day health centers, dental services,

physician services, optometry services, and clinics. The injunction will reduce the savings that had been estimated for the above provider reductions. At this point, the Department has developed its fiscal projections with the assumption that the injunction will apply to the 6 provider types post March 1, 2009. We will update these projections in May.

As noted in Item 1 above, the managed care impact of the provider reductions has been removed from these policy changes and is now incorporated into the 2008-09 managed care capitation rates. Much of the difference in these policy changes between the Appropriation and the November Estimate is due to this change, so a PC-to-PC comparison is not meaningful. However, when looked at as a whole including the impact of the court injunction, in the November Estimate FFS savings for 2008-09 are $166.5 million GF, which is $6.3 million GF less savings than in the Appropriation. Managed care savings in 2008-09 are $73.1 million GF, which is $45.7 million GF less than in the Appropriation. In total, including both FFS and managed care, 2008-09 provider payment reduction savings are $239.6 million GF, which is $52.0 million GF less savings than in the Appropriation.

The 2009-10 FFS savings are expected to decrease by $101.3 million GF as compared to 2008-09 due to the continuation of the preliminary injunction to the provider reductions and the lower reductions enacted by the Health Trailer Bill of 2008. The 2009-10 managed care savings are unknown at this time as the 2009-10 capitation rates have not yet been actuarially determined.

PC 49 Federal Drug Rebate Program: In the November 2008 Estimate, drug rebates are expected to decrease in 2008-09 from the Appropriation amount, based on later actual data. Rebates were higher than normal in the fourth quarter of 2007-08, and the Appropriation estimate assumed continuation at the higher level. However, actual data show that rebates did not remain at that level, and the November Estimate was revised accordingly. Federal drug rebates are expected to decrease by $14.9 million GF over the Appropriation. In 2009-10 the rebates are expected to increase by $43.3 million GF.

PC 57 Managed Care Expansion—Sonoma; PC 64 Managed Care Expansion—Placer; PC 65 Managed Care Expansion—San Luis Obispo; PC 68 Managed Care Expansion—Merced: As part of Medi-Cal Redesign, the Budget Act of 2005 included staffing for a geographic expansion of managed care. In 2007-08, the County Organized Health System model expanded to San Luis Obispo. In 2008-09, GMC is expected to expand into Placer County. In 2009-10, the COHS model will be expanded into Sonoma and Merced Counties. The expansion will result in one-time costs when beneficiaries switch from fee-for-service (FFS) to managed care, because of the payment of monthly capitation rates at the same time that fee-for-service claims are still being paid, due to the FFS payment lag. The overall managed care expansion costs shown in these policy changes in 2008-09 are $37.9 million GF less than the 2008-09 Appropriation. However, as noted in Item 1 above, the San Luis Obispo COHS

capitation costs ($37.7 million GF) are now included in the COHS base policy change, and PC 65 reflects only the fee-for-service savings. The true 2008-09 change is $0.2 million GF above the Appropriation. The 2009-10 costs are expected to be $28.1 million GF more than in 2008-09, mainly due to the expansion to Sonoma and Merced in 2009-10.

PC 74: NF-B Rate Changes and QA Fee Increase: AB 1629 (Chapter 875, Statutes of 2004) provides for a cost of living increase, the establishment of a facility specific rate methodology, and the imposition of a quality assurance (QA) fee for freestanding skilled nursing facilities (SNFs), including adult sub-acute days. In the 2008-09 Appropriation, the August 2008 cost of living increase was assumed to be an average 4.9%. However, actual August 2008 rate increases based on cost reports exceeded the cap of 5.5%. As a result, rates were reduced to the 5.5% cap and 2008-09 costs for the AB 1629 SNF rate changes are expected to be $7.6 million GF more than the Appropriation. 2009-10 costs are expected to be $101.6 million GF greater than in 2008-09, due to the full year impact of the August 2008 increase, and the impact of an estimated 5.0% August 2009 cost of living increase. The rate increases are also applied to the LTC components of managed care and PACE, SCAN and OnLok; costs for their rate changes are included in the applicable managed care policy changes.

PC 94 Hospital Financing – Stabilization Funding: Stabilization funding provided to Non-Designated Public Hospitals, private hospitals and distressed hospitals under the provisions of SB 1100 for uncompensated Medi-Cal costs is comprised of GF made available from federalizing four state only programs, any additional GF needed and Medicaid federal funding. The 2008-09 Appropriation assumed that stabilization payments for 2005-06 and 2006-07 would be made in 2008-09. However, the 2008-09 costs are expected to increase by $33.2 million GF over the 2008-09 Appropriation because 2007-08 payments will also be made in 2008-09. The 2009-10 costs are expected to be $62.2 million GF less than 2008-09.

PC 102 Base Adjustment – DPH Interim Rate: DPHs receive an interim per diem rate rather than CMAC-negotiated per diem rates, which were funded with 50% Federal Financial Participation (FFP) and 50% GF. The interim payments are 100% federal funds matching the hospitals' certified public expenditures (CPEs), resulting in 50% FFP and 50% CPE. However, as Medi-Cal hospital costs are paid at 50% FFP and 50% GF, an adjustment to shift to 100% FFP is done immediately after a checkwrite is issued. The interim rate payments are included in the Medi-Cal base total dollar trend, but at 50% FFP/50% GF. This policy change reflects the adjustment to 100% FFP. In 2008-09 GF costs are expected to increase by $55.5 million over the 2008-09 Appropriation due to lower estimated expenditures in 2008-09. In 2009-10, GF costs are expected to decrease by $55.7 million as compared to 2008-09.

PC 157 Delay Checkwrite June 2009 to July 2009: Since 2004-05, the last checkwrite in June of each fiscal year has been delayed until the start of the next

fiscal year. The Department had proposed in last year's Estimate to delay the second-to-last checkwrite until the start of the next fiscal year. Due to available funding with the 2007-08 Appropriation, the Department did not implement this additional payment delay. Beginning in 2008-09, the second-to-last checkwrite for all Medi-Cal providers whose claims are processed by the fiscal intermediary will be delayed and paid during the next fiscal year. From then on, two checkwrites will continue to be delayed at the end of each fiscal year. This will result in a one-time decrease in expenditures of $184.0 million GF in 2008-09 only. Because of the one-time savings, 2009-10 costs will be $184.0 million GF higher than in 2008-09.

PC 160 Additional Caseload Increase: The November 2008 Estimate includes an increase of $21.1 million GF in 2008-09 and a further increase of $84.8 million GF in 2009-10 for additional caseload increases due to the poor economy and later forecasts that unemployment will continue to increase through 2009-10. This is the estimated increase above the base caseload projection, which was based on lower forecasts that were available at the time the base estimate was prepared. Because there was not sufficient time to incorporate the revised caseload estimates into the base expenditure estimates for fee-for-service, managed care and other types of services, the estimated costs associated with the increased caseload are included in a policy change.

The overall year-to-year base caseload change, including the above additional caseload increase, but excluding the impact of the savings proposal policy changes, is an increase of 2.77% from 2007-08 to 2008-09 (6,833,800 average monthly eligibles), and an increase of 2.68% from 2008-09 to 2009-10 (7,016,800). With the impact of the savings proposals, the caseload change is an increase of 2.2% for 2008-09 (6,797,600) and a decrease of 1.84% for 2009-10 (6,672,600).

PC 162 Month-to-Month Eligibility for Undocumented Immigrants: Currently, immigrants who are not eligible for full-scope Medi-Cal because of their immigration status may establish eligibility for restricted-scope Medi-Cal whether or not they are in need of emergency services at the time of application. Their eligibility continues until they no longer meet the eligibility requirements as long as they complete the midyear status report and annual redetermination (i.e., the same eligibility period as beneficiaries on full-scope coverage). The November 2008 Estimate includes a change to month-to-month eligibility beginning May 1, 2009, where eligibility for restricted-scope services (except pregnancy-related emergency services) would be limited to the month or months during which emergency services are received. This change is estimated to result in savings of $4.8 million GF in 2008-09, and an additional $66.4 million GF savings in 2009-10.

PC 163 New Qualified Aliens–PRUCOL Rollback: New Qualified Aliens (Qualified Aliens who have been in the country for less than five years who are subject to the five-year bar), and Permanently Residing Under Color of Law (PRUCOL) immigrants (who are not defined as eligible Qualified Aliens under

federal law) currently receive full-scope Medi-Cal benefits, with the federal government only covering the federal share of costs related to the restricted-scope benefits. Beginning May 1, 2009, services for these eligibles will be limited to emergency, prenatal, time-limited Breast and Cervical Cancer Treatment, postpartum, and long-term care. The November Estimate includes savings of $9.4 million GF in 2008-09 and an additional $130.5 million GF savings in 2009-10 as a result of this change.

PC 164 Discontinue Adult Optional Benefits: Savings of $19.7 million GF in 2008-09 and an additional $109.7 million GF savings in 2009-10 have been included in the November 2008 Estimate due to discontinuance of certain federally optional benefits for adults who are not in nursing facilities, and excluding pregnant women. The services to be discontinued beginning May 1, 2009 are: acupuncture, audiology, chiropractic, dental, incontinence creams and washes, opticians/optical labs, optometry, podiatry, psychology and speech therapy.

PC 165 1931(b) Expansion Rollback: The 1931(b) program provides Medi-Cal coverage with no share of cost to needy families with children. Beginning in May 2009, the allowable income level for 1931(b) applicants will be rolled back from 100% FPL to the CalWORKs level, which is approximately 72% of the FPL. The income test for determining eligibility for 2-parent families will be eliminated, using only the 100 hour rule. This change is expected to result in savings of $2.6 million GF in 2008-09, increasing by $85.6 million GF in 2009-10.

PC 166 Aged and Disabled Expansion Reduction: The Aged and Disabled FPL program is an expansion to the Medically Needy program that provides no share of cost Medi-Cal to needy seniors and individuals with disabilities. The expansion in 2001 increased the income level from 69% FPL to 133% FPL. Because the income eligibility level was a set amount and was not inflation-adjusted, it has declined to approximately 127% FPL currently. Beginning May 1, 2009, the Aged and Disabled Expansion FPL program income levels will be partially reduced, to the SSI/SSP income levels. As a result, the November Estimate includes savings of $14.3 million GF in 2008-09, and an additional $171.5 million GF in 2009-10.

PC 170 Institutional Provider Checkwrite Delay: In order to ensure that Medi-Cal expenditures do not exceed the 2008-09 Appropriation, a checkwrite for institutional providers may need to be delayed to 2009-10. This checkwrite delay would be for the third-to-the-last weekly checkwrite of 2008-09. The November Estimate assumes that $85.5 million GF in institutional provider expenditures would need to be rolled from 2008-09 into 2009-10. This action will be reassessed based on updated expenditure data in the May 2009 Estimate. Relative to 2008-09, 2009-10 costs are $171.1 million GF higher, due to the one-time savings in 2008-09 and the one-time cost in 2009-10.

Fee-For-Service Base: The FFS Base Estimate, after accounting for policy changes rolling into the base, decreased by $30.5 million GF in 2008-09 and increased by $452.0 million GF in 2009-10. The current year decrease of $30.5 million GF is due mainly to the partial checkwrite payment of $49 million GF paid early in June 2008. This payment was part of the last checkwrite in June which was rolled to July in the May 2008 base estimate. Without the shifting of this payment back to June, the base would have increased by $18.5 million GF. The budget year increase is due mainly to caseload increases and ongoing base trends in utilization and costs in the hospital inpatient, pharmacy, nursing facility, and other medical service categories.

All Other Changes: All other changes amount to a increase of $31.4 million GF. These changes include the net impact of all other changes not listed above.

County/Other Administration: County Administration and Other Administration costs are expected to increase by $13.8 million GF in 2008-09 compared to the Appropriation, mainly because the Appropriation reflects costs of $27.4 million GF in Benefits that should have been posted in County/Other Administration, and because of $5.7 million in GF savings from the reconciliation of 2006-07 county administration costs. In 2009-10 costs are expected to increase by $23.9 million GF above 2008-09 due mainly to caseload increases. The November Estimate assumes that the 2009-10 county administration cost of living adjustment will be eliminated.

Fiscal Intermediary: Costs for the fiscal intermediary are expected to be $5.1 million GF greater in 2008-09 than assumed in the 2008-09 Appropriation and decrease by $5.7 million GF in 2009-10.

Estimate Information: The 2008-09 Appropriation included an additional $152.2 million GF due to a posting discrepancy. The Appropriation and the November 2008 Estimate both include unspecified reductions of $323.3 million for 2008-09 and 2009-10, resulting in estimates constructed near the low end of the normal variation rather than at the midpoint.

Additional Adjustments in 2009-10

The following paragraphs briefly describe additional items that are not already discussed under the 2008-09 and 2009-10 Section above:

PC 159 QIF Sunset for Managed Care: Medi-Cal managed care plans are currently required to pay the State General Fund a Quality Improvement Fee (QIF) of 5.5%, which totals approximately $240 million annually. The plans are reimbursed for this cost through the Medi-Cal capitation rates, using 50% GF and 50% FFP. This results in a net gain to the State General Fund of one-half of the 5.5% fee. The QIF will end on October 1, 2009 due to the sunset of the state

Welfare and Institutions Code requirement and changes in federal statute. This change will result in a savings of $86 million GF to the Medi-Cal program in 2009-10 due to the decrease in capitation payments. The GF revenue from the QIF, which is budgeted on an accrual basis, will reduce to zero as of October 1, 2009, leading to a loss of GF revenue. This revenue is not included in the Medi-Cal budget.

PC 169 Reduction to Hospital Financing DPH SNCP by 10%: Under the Medi-Cal Hospital/Uninsured Care Demonstration, the Safety Net Care Pool (SNCP) was established for distribution through the CPEs of designated public hospitals (DPHs) for uncompensated care to the uninsured, and for the federalizing of four state-only funded health care programs (the Genetically Handicapped Persons Program, California Children's Services, Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment). For the 2008-09 SNCP Demonstration Year, payments to DPHs will be reduced by 10%. The amount of CPE of the four State-only funded programs will be increased to utilize any remaining federal funds in the SNCP. This change is expected to result in GF savings of $6.9 million in 2009-10.

All Other: All other changes amount to an decrease of $23.8 million GF compared to 2008-09. These changes include the net impact of all other changes not listed above.

Family Health Local Assistance

The November 2008 Family Health Estimate shows a 2008-09 General Fund (GF) surplus of $23.8 million compared to the FY 2008-09 Budget Appropriation, from $167.9 million to $144.1 million. For 2009-10, the Family Health Estimate shows a GF decrease of $28.0 million compared to 2008-09, from $144.1 million to $116.1 million.

The major reasons for the change from the 2008-09 Appropriation include the following:

CCS

Policy Change 6 - Hospital Financing – Safety Net Care Pool: The Medi-Cal Hospital/Uninsured Demonstration established the Safety Net Care Pool (SNCP) with annual funding of $586 million FFP to support the provision of services to the uninsured. The funding is either distributed to Designated Public Hospitals (DPHs) or used towards federalizing four state-funded health care programs, the GHPP, CCS, Medically Indigent Adult Long-Term Care (MIA-LTC), and Breast and Cervical Cancer Treatment Programs (BCCTP). The GF saved by providing FFP to the four state-funded programs is to be provided to Non-Designated Public Hospitals (NDPH), Private Hospitals, and Distressed Hospitals as Stabilization funding. In 2008-09, $4.0 million more in SNCP Funds than

anticipated in the 2008-09 Appropriation will be used for the CCS State-Only program. The 2009-10 SNCP funding will be the same as the 2008-09 level. Reconciliation with the Budget Act: The Budget Act of 2008 included an additional $5.6 million GF in 2008-09. The November 2008 Estimate did not include this $5.6 million GF.

GHPP

Policy Change 3 – Blood Factor Rebates and Contract Savings: Blood factor rebates in 2008-09 are estimated to be $2 million GF higher than the 2008-09 Appropriation because rebates are still being collected for 2006-07 and 2007-08 in 2008-09. In 2009-10 rebates are expected to be $2 million GF less than in 2008-09, as rebate collections become current and return to an annual level.

Policy Change 4 - Hospital Financing – SNCP: The Medi-Cal Hospital/Uninsured Demonstration established the SNCP with annual funding of $586 million FFP to support the provision of services to the uninsured. The funding is either distributed to DPHs or used towards federalizing four state-funded health care programs, the GHPP, CCS, MIA-LTC, and BCCTP Programs. The GF saved by providing FFP to the four state-funded programs is to be provided to NDPH, Private Hospitals, and Distressed Hospitals as Stabilization funding. In 2008-09, $9.0 million more in SNCP Funds than anticipated in the 2008-09 Appropriation are expected to be used for GHPP. In 2009-10 SNCP funding will be an additional $1.0 million greater than 2008-09.

Policy Change 5 – Reduction to Provider Payments: ABX3 5 (Chapter 3, Statutes of 2008) reduces payments to providers by 10%, with specified exemptions. In 2008-09, savings are estimated to increase by $1.6 million GF above the 2008-09 Appropriation due to the use of more recent expenditure data. In 2009-10 savings are expected to decrease by $4.4 million GF due to the Health Trailer Bill of 2008 provisions which reduced the provider reduction from 10% to 1%.

The major reasons for the decrease in costs in 2009-10 that were not discussed under 2008-09 include the following:

CCS

Base: State Only Therapy Costs: In 2009-10, costs for therapy provided by CCS county program staff in CCS school-based medical therapy units are expected to increase by an additional $3.1 million GF over the
2008-09 costs due to continued increases in caseload and the cost of therapy services.

Base: Healthy Families Treatment: Costs for services for CCS Healthy Families children are expected to be $2.3 million GF more than the 2008-09 due to continued increases in caseload.

Policy Change 11A – Reduction to CCS State Only Provider Payments: ABX3 5 (Chapter 3, Statutes of 2008) reduces payments to providers by 10%, with specified exemptions. In 2009-10 savings are expected to decrease by $1.7 million GF due to the Health Trailer Bill of 2008 provision which reduced the provider reduction from 10% to 1%.

Policy Change 15 - Reduction to Hospital Financing – DPH SNCP: Under the Medi-Cal Hospital/Uninsured Care Demonstration, the SNCP was established for distribution through the CPEs of DPHs for uncompensated care to the uninsured, and for the federalizing of four state-only funded health care programs (the GHPP, CCS, MIA-LTC, and BCCTP). For the 2008-09 SNCP Demonstration Year, payments to DPHs will be reduced by 10%. The amount of CPE of the four State-only funded programs will be increased to utilize any remaining federal funds in the SNCP. This change is expected to result in GF savings of $37.3 million in 2009-10.

GHPP

Base: Treatment Costs: GHPP base costs are expected to be $5.8 million GF greater in 2009-10 than 2008-09 due to continued increases in caseload and costs.

Policy Change 11 - Reduction to Hospital Financing – DPH SNCP: Under the Medi-Cal Hospital/Uninsured Care Demonstration, the SNCP was established for distribution through the CPEs of DPHs for uncompensated care to the uninsured, and for the federalizing of four state-only funded health care programs (the GHPP, CCS, MIA-LTC, and BCCTP). For the 2008-09 SNCP Demonstration Year, payments to DPHs will be reduced by 10%. The amount of CPE of the four State-only funded programs will be increased to utilize any remaining federal funds in the SNCP. This change is expected to result in GF savings of $10.0 million in 2009-10.